

## Message Text

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ACTION EB-08

INFO OCT-01 ARA-06 ISO-00 SP-02 USIA-06 AID-05 NSC-05  
TRSE-00 SS-15 STR-04 OMB-01 CEA-01 L-03 H-01 PA-01  
PRS-01 CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 XMB-02  
OPIC-03 LAB-04 SIL-01 AGRE-00 ITC-01 /081 W  
-----111642Z 126740 /53

P 111500Z MAR 77

FM AMEMBASSY SAN JOSE

TO SECSTATE WASHDC PRIORITY 6679

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E.O. 11652: N/A

TAGS: ETRD, EPAP, CS

SUBJECT: PROPOSED TARIFF QUOTAS FOR MUSHROOMS

REF: STATE 310542, SAN JOSE 303

1. BOTH THE GOVERNMENT AND THE PRIVATE SECTOR IN COSTA RICA HAVE MANIFESTED IN RECENT WEEKS GROWING UNEASINESS ABOUT U.S. INTENTIONS IN THE TRADE POLICY FIELD. OUR INABILITY TO PROVIDE AN INCREASE IN THE MEAT QUOTA FOR COSTA RICA LATE LAST YEAR, HAS BEEN FOLLOWED BY A PROPOSAL TO REMOVE SUGAR FROM GSP TREATMENT AND BY ITC INVESTIGATIONS WHICH COULD LEAD TO QUOTA RESTRICTIONS ON NON-RUBBER FOOTWEAR, MUSHROOMS, AND CUT FLOWERS. THE ADMINISTRATION'S DECISIONS ON THESE CASES WILL BE THE FIRST IMPORTANT SIGNALS TO COSTA RICA OF THE TYPE OF TRADE POLICY THE ADMINISTRATION INTENDS TO FOLLOW.

2. THE MUSHROOM CASE IS THE SUBJECT OF THIS MESSAGE, BOTH BECAUSE A DECISION APPEARS TO BE IMMINENT AND BECAUSE WE HAVE HAD ADDITIONAL EXPRESSIONS OF CONCERN IN RECENT DAYS. A FOREIGN MINISTRY OFFICIAL INQUIRED ABOUT THE CASE EARLIER THIS WEEK, AND EXPRESSED THE POINT OF VIEW THAT THE SIZE OF THE TARIFF QUOTA PROPOSED FOR COSTA RICA WOULD NOT ALLOW THE COSTA RICAN INDUSTRY

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TO ATTAIN A VIABLE LEVEL OF PRODUCTION.

3. JORGE GONZALEZ MARTEN, A 1974 PRESIDENTIAL CANDIDATE AND PROMINENT LOCAL BUSINESSMAN WHO IS ALSO THE PRINCIPAL PROMOTER OF THE LOCAL MUSHROOM COMPANY, HONGOS DE COSTA RICA, CONTACTED THE EMBASSY MARCH 9 TO EXPRESS ONCE AGAIN HIS GRAVE CONCERN. HE URGED THE EMBASSY TO TELEPHONE ASSISTANT SECRETARY TODMAN WHO

IS FAMILIAR WITH THE PROBLEM AND WHO WOULD BE ABLE, HE HOPED, TO ASSIST IN GAINING REJECTION OF QUOTAS. THE EMBASSY, AFTER LEARNING FROM ARA/ECP BY TELEPHONE THAT A DECISION WAS NOT AS IMMINENT AS GONZALEZ MARTEN HAD FEARED, DECIDED TO REPORT THE MATTER BY TELEGRAM.

4. THE SIZE OF THE QUOTA PROPOSED FOR COSTA RICA (500,000 LBS./YEAR), EVEN THOUGH IT EXCEEDS HISTORICAL SHIPMENT LEVELS, IS GROSSLY INSUFFICIENT FOR COSTA RICA GIVEN THE SIZE OF THE EXISTING PLANT AND THE CAPITAL EXPENDITURE THAT HAS BEEN MADE. AS REPORTED PREVIOUSLY, HONGOS DE COSTA RICA PLANS TO REACH A PRODUCTION LEVEL OF 5 MILLION POUNDS WITHIN THREE YEARS. IT PLANS TO BEGIN EXPORTS IN MAY, AT A LEVEL OF 1,000 POUNDS PER DAY, EQUIVALENT TO 3.65 MILLION POUNDS PER YEAR. AMERICAN MUSHROOM COMPANY, WHICH OPERATED THE INDUSTRY HERE UNTIL IT WAS SHUT DOWN BY CREDITORS LAST YEAR, WAS UNABLE, BECAUSE OF A SERIES OF PROBLEMS RELATED TO THE DESIGN, OPERATION, AND INSUFFICIENT CAPITALIZATION OF THE MUSHROOM OPERATION TO REACH AN EFFICIENT LEVEL OF PRODUCTION AND SALES. HONGOS DE COSTA RICA, WHICH BOUGHT THE PLANT AND IS NOW ENGAGED IN RENOVATING IT AND INSTALLING A MUCH MORE EFFICIENT PRODUCTION PROCESS, WITH THE TECHNICAL ASSISTANCE OF THE GREEN GIANT COMPANY, EXPECTS TO GET A MUCH LARGER PRODUCTION OUT OF THE SAME BASIC PLANT, AT MUCH REDUCED COSTS.

5. BASING A QUOTA ON SHIPMENTS DURING THE PAST SEVERAL YEARS WHEN THE MUSHROOM INDUSTRY WAS INEFFICIENT AND DYING WOULD NOT REPRESENT EQUITABLE TREATMENT. IF THE U.S. MUST IMPOSE A QUOTA, THE LEVEL FOR COSTA RICA SHOULD RECOGNIZE THE CAPACITY OF PRODUCTION LIMITED OFFICIAL USE

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OF

THE EXISTING PLANT AND THE NEW EQUIPMENT ALREADY ORDERED AND BEING INSTALLED. ALTERNATIVELY, SMALL PRODUCERS (THOSE THAT SHIP 5 MILLION POUNDS OR LESS TO THE U.S.) MIGHT BE EXEMPTED FROM QUOTAS. EQUITY WOULD SEEM TO REQUIRE GIVING NEW PRODUCERS AND SMALL PRODUCERS A CHANCE TO BUILD UP PRODUCTION TO AN ECONOMICALLY VIABLE LEVEL.

6. THE EMBASSY WOULD HOPE THAT IT WOULD PROVE POSSIBLE TO AVOID QUOTAS ALTOGETHER. ACCORDING TO GREEN GIANT MUSHROOM EXPERTS AT THE LOCAL PLANT THE PRICE OF MUSHROOMS IN THE U.S. IS NOW AT A HIGH LEVEL AND IS PROVIDING GOOD PROFITS TO UBCX . PRODUCERS. PERHAPS THE INCREASE IN PRICE COULD BE CITED AS THE REASON FOR REJECTING THE QUOTAS RECOMMENDED BY THE ITCAL

7. CHARGE AND OTHER EMBASSY OFFICERS VISITED THE PLANT OF HONGOS DE COSTA RICA THIS WEEK TO VERIFY PROGRESS. BASED ON THEIR OBSERVATIONS OF THE PROGRESS THAT HAS ALREADY BEEN MADE IN RENOVATING THE PLANT AND INSTALLING THE NEW PRODUCTION SYSTEM,

AND BASED ON CONVERSATIONS WITH MANAGEMENT AND WITH GREEN GIANT  
TECHNICAL PERSONNEL, IT APPEARS THAT THE PLANT WILL BE ABLE TO  
GO INTO OPERATION CLOSE TO THE APRIL 18 TARGET DATE. PREPARATIOEU  
OF THE GROWING MEDIUM IN LARGE QUANTITIES AND CULTIVATION OF THE  
SPORES FOR PLANTING IS ALREADY UNDERWAY. IF INITIAL PRODUCTION  
IS AT A LEVEL OF 10,000 POUNDS PER DAY, AS STATED BY HONAGEMENT,  
AND AS APPEARS LIKELY, THE PLANT COULD EASILY EXCEED DURING THE  
REMAINING MONTHS OF 1977 ITS PLANNED PRODUCTION OF 1.9 MILLION  
POUNDS. KILDAY

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## Message Attributes

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**Review Markings:**  
Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009